

Nelson Mandela Bay Business Confidence Indicator Year-to-Date September 2011

The Nelson Mandela Bay Business Confidence Indicator, NMB BCI, has been specifically developed to offer a service to investors, potential investors and businesses wishing to understand developments in economic circumstances in the region or to analyze the environment impacting upon existing undertakings or upon the establishment of new undertakings.

The NMB BCI was modelled upon the original SACCI BCI, (which was substantially restructured during February 2001), and as such is not a 'confidence indicator' in the sense of asking business people how confident they feel about current or future circumstances, it is rather a composite of economic indicators that are accepted as reflecting the environment that businesses are actually experiencing and thus have the greatest bearing on the business mood. As SACCI says;

"The BCI is a market-related index that reflects not what business decision-makers are saying, but what they are doing and experiencing. It is likely that in any one month, the business mood will be influenced both positively and negatively by developments in various sectors of the economy, and the BCI seeks to reflect the net result of these influences."

The NMB BCI is a composite index tracking the performance of fifteen key economic indicators chosen from those available that are believed to best reflect the business mood in the PE / Uitenhage area.

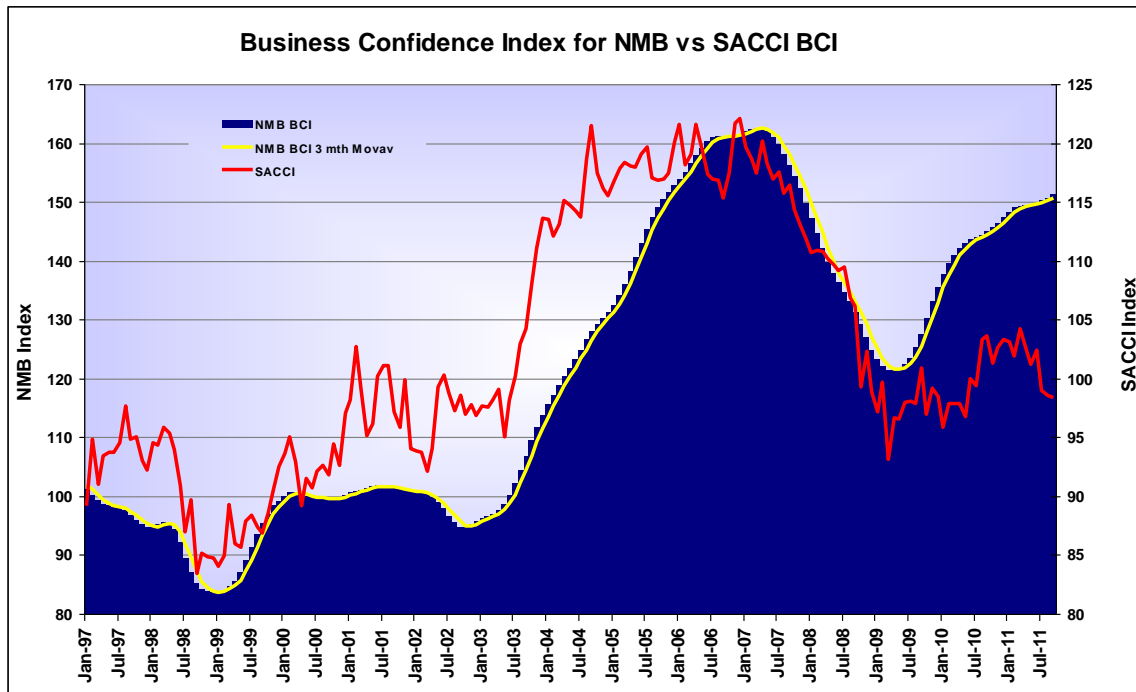
The following indicators have been chosen for inclusion in the NMB BCI:

1. *The rate of inflation, as measured by the Consumer Price Index for the PE / Uitenhage region;*
2. *The prime rate at month end;*
3. *The Rand/ US\$ exchange rate;*
4. *Retail sales in the Eastern Cape;*
5. *The average monthly gold price in dollar terms;*
6. *Merchandise imports in real terms;*
7. *Merchandise exports in real terms;*
8. *The total number of new passenger cars sold in the PE / Uitenhage region;*
9. *The value of building plans passed in the PE / Uitenhage region in constant prices;*
10. *The value of buildings completed in the PE / Uitenhage region in constant price terms;*
11. *The performance of the Johannesburg Stock Exchange, as indicated by the JSE All Share index.*
12. *The RMB BER Consumer Confidence Index for the PE / Uitenhage region from the Bureau for Economic Research of Stellenbosch University.*
13. *The total new vehicle market in South Africa*
14. *Number of passengers arriving at the PE airport*
15. *Real value of seasonally adjusted manufacturing sales in South Africa*

These indicators are all in constant price terms where applicable and are seasonally adjusted and trended using the X12 seasonal adjustment programme. The trend cycles

are aligned, synchronized and weighted to reflect the relative impact of each of the indicators on business activity in the region. The NMB BCI consists of both key regional statistics as well as national statistics that have a countrywide bearing on the business mood and as such have to be incorporated in a composite cycle that seeks to reflect the local business mood within a national context.

Dr Neal Bruton of **RGT Smart Ltd.**, has compiled the NMB BCI on behalf of NMBBC.



After reflecting slow decline during the past couple of months the trend in the NMB BCI recovered slightly in September being supported during the month by unexpectedly strong demand for both new cars in the metro and the total new car market in the country. Improved performance in retail sales in the Eastern Cape and some slight improvement in the underlying trend in the real values of both imports and exports also assisted the index.

Despite significant volatility on financial markets the months of August and September yielded some more encouraging data for the South African economy. In August, while influenced by base effects in 2010, manufacturing production in the country increased by 5,6 percent when compared with August 2010, recovering from the revised negative growth of 6,2% recorded in July 2011. Also in August and while also influenced by base effects, retail trade sales in real terms increased by 7,1 percent year-on-year, and more significantly, was the fact that real retail trade sales for the three months ended August 2011 reflected an increase of 4,1 percent when compared with the three months ended August 2010.

However, despite somewhat more positive data for August and September, following the disappointing second quarter 2011 GDP growth of only 1.3 percent and with the probability that the third quarter will also yield subdued GDP growth performance, growth

forecasts for 2011 have generally been pulled back from nearly four percent to around three percent or less. Public sector GDP forecasts have also been revised downwards to 3.1 percent for this year, with a slightly higher 3.4 percent for 2012.

With regard to the details of the NMB BCI, the trend cycles in seven of the sub-indices reflected improvement, seven reflected deterioration, and one moved sideways.

The indicators that supported the NMB BCI through September included the trend cycle in the price of gold which continues to assist the index. The underlying trend cycle in the new car market in the Metro reflected encouraging growth as did the trend cycle in the total new vehicle market in the country. The trend cycle in the value of real retail sales in the Eastern Cape also reflected some improvement as did the trend cycle in the real value of new buildings completed in the Metro despite the actual data for August falling sharply. The trend cycles in the real value of both exports and imports recovered slightly in August reflecting some marginal improvement after a number of months of slow decline.

On the downside, the trend in the rand US dollar exchange rate weakened sharply through September, and the trend cycle of the JSE all share index continued deteriorating. The trend in the level of consumer confidence in the Eastern Cape is declining, and trend in the local rate of inflation is accelerating weighing on the index. The underlying trend in the real value of building plans passed in the Metro continues declining at a slowly accelerating rate, and the trend in passengers arriving at the PE airport declined marginally through the month. The trend in the real value of manufacturing sales in the country is also declining at a slowly accelerating pace.

The trend cycle in the prime interest rate moved sideways through August having no meaningful effect on the overall index.

Dr N.S.Bruton
28 October 2011